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Regulations: Friend or Foe? : Regulation and Growth-Oriented Small Businesses

Prof Frank Peck Research Director CRED University of Cumbria, Paternoster Row Carlisle
Cumbria CA3 8TT 01228 88718 Frank.Peck@cumbria.ac.uk
<http://www.cumbria.ac.uk/Courses/SubjectAreas/BusinessComputing/CRED/Home.aspx>

Keith Jackson Researcher CRED University of Cumbria

Dr Gail Mulvey Research Fellow CRED University of Cumbria

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Abstract

Objectives Examines the extent to which UK growth-oriented small and micro-businesses (SMBs) are impacted by regulations. The paper explores the dynamic relationship between regulatory environment and strategies for small business growth. Attention focuses on how such businesses find out about regulatory requirements and the extent to which SMBs might adjust plans to address regulatory concerns.

Prior Work Major studies have produced results that seem to support the conclusion that regulation can hinder business performance (Djankov et al, 2006). More recently, these studies have been subject to critique (Adomako and Danso, 2014; Wilson et al, 2012). Other research has suggested that regulation also has indirect effects via its impacts on customers, suppliers, competitors, regulatory authorities and infrastructure providers (Kitcing, 2008; Gray, 2008; Vershinina et al, 2014). SMBs can use their knowledge of regulations to their advantage (Douglas, 2006). There is now evidence to suggest that regulations can offer competitive advantage to some growth-oriented firms (NESTA, 2011; Wallace et al 2010 and Levie and Autio, 2011).

Approach This research examines the relationship between regulation and growth using eight case studies of growth orientated SMBs in the North West of England. The selected cases are proactive in seeking new market opportunities and innovative in terms of product development and business process. In-depth interviews are conducted with owner-managers to document growth plans and regulatory challenges.

Results The results show that there is a cost impact of regulations on these firms inherent in growth plans. However, product-innovators in particular recognise the benefit of effective engagement with regulatory frameworks as a significant element of competitive advantage. In several cases, regulation appears to have been a support for, or even the basis of, growth for some firms. Furthermore, growth experiences appear to have changed attitudes towards regulation, suggesting a two-way relationship between regulation and growth.

Implications The implication is that for growth-orientated SMBs, not all regulatory changes are viewed negatively and that in some cases, the removal of regulatory barriers could endanger their competitive advantage. Growth firms appear more concerned with inconsistent enforcement of rules rather than with the overall level of regulation.

Value This research contributes towards the debate on the impact of regulations on the economy at the micro level and in so doing highlights important nuances in the relationship between business growth and the regulatory environment.

1.0 Introduction

The authors would like to thank the Department for Business, Innovation and Skills for funding this report and in particular James Cox for his feedback and support throughout this project. The authors also acknowledge the input from the businesses, without their honesty and frankness this report would not have been possible.

2.0 Aims and Objectives

The relationship between regulation and economic growth has been the focus of considerable discussion in academia and policymaking over the past decade. These debates have taken place at a variety of spatial scales from the international arena, to the national context and also in regional and local economies within the UK. A prominent theme in these discussions has been the extent to which the regulatory environment affects business growth and innovation and, in particular, whether regulations place unnecessary burdens on businesses which impede growth plans particularly for smaller businesses that lack capacity to respond to administrative requirements. The aim of this research is to examine the impacts of regulation specifically on *growth-oriented small and micro-businesses* (SMBs which are businesses with less than 50 employees). In this context, the objectives are as follows:

- a) To examine the extent to which growth-oriented SMBs are impacted disproportionately by regulatory changes
- b) To ascertain how growth-oriented SMBs find out about regulatory requirements associated with their expansion plans
- c) To show the extent to which SMBs might adjust their plans or develop coping strategies to address regulatory concerns
- d) To consider the implications of the findings for policy and further research

3.0 Prior Work on Growth, Business Performance and Regulation

3.1 Regulation and Growth

Attempts have previously been made to understand the relationship between the regulatory environment and patterns of growth at the international scale. Several major studies have produced results that seem to support the conclusion that regulation can hinder business performance and that therefore systematic deregulation can stimulate growth. An OECD study, for instance, examined how institutional environments and regulation of product and labour markets can influence growth (Nicoletti and Scarpetta, 2003). The research question focused specifically on the extent to which market liberalisation is associated with productivity growth. This hypothesis was based on the assumption that privatisation will alter business behaviours, boost efficiency and stimulate innovation. The study noted significant associations between liberalisation and productivity growth leading to the conclusion that countries that are heavily regulated could derive sizeable benefits from reform.

Using similar data, Dawson (2006) noted that reductions in regulation need to be steady and predictable for optimal effect on future economic growth. The World Bank (Loayza et al, 2005) also showed that heavy regulation tends to be associated with expansion of the informal sector, hence deregulation needs to be accompanied by measures to strengthen governance and to streamline regulations that are retained. Djankov et al (2006) suggested that deregulation and reform of regulation can improve growth prospects and these findings have been replicated by similar recent research (Haider, 2012 and Poel et al (2014) Poel et al (2014) demonstrated how changes in the level of administrative burden are statistically associated with changes in levels of economic growth. This particularly applies to changes in the time taken to pay tax and procedures for starting a business.

3.2 Regulation and Entrepreneurship

These studies have, however, been subject to critique with regard to the quality of data and the inferences that are made on the basis of broad patterns in macro-economic indicators. Van Stel et al (2007) are critical of using these very broad findings to support policy interventions affecting individual business decisions and in particular, the decision to form a new business. They argue that while there may be statistical associations between different measures of growth and levels of regulation at

a global scale, it cannot be assumed from this evidence alone that reduced regulation will affect individual business decisions and stimulate entrepreneurship.

In seeking to address this question, these authors examine the relationship between regulation and entrepreneurship across 39 countries. The findings show that while some types of regulation do appear to affect levels of entrepreneurship (in particular, minimum capital requirements and some labour market regulations) there is no association between levels of business start-up and the administrative burdens associated with starting a business (time, cost, complexity of procedures). They also make the point that many “necessary entrepreneurs” in particular (those who enter business primarily as a survival mechanism rather than to pursue a business idea for profit) avoid regulation entirely by starting operations in the informal sector.

In a more targeted study of relevance to the UK, Capelleras et al (2008) examine firm formation rates in the UK and Spain, the former regarded as having “light regulation” in contrast to Spain which is more heavily regulated. The results show that in the UK, new firms in general appear to start smaller and grow faster. However, this difference disappears when unregistered firms are included in the analysis, leading them to question whether deregulation *per se* will stimulate higher levels of entrepreneurship. These results also imply that heavy regulation can have unintended consequences by shifting a higher proportion of new businesses into the informal sector. This interpretation is certainly consistent with widespread evidence from both developed and developing world contexts that regulation impacts disproportionately on smaller businesses (Akinboade and Kinfack, 2012; Loayza et al, 2005; McCarty, 2010; Wiederhold, 2011; Wilson et al, 2012; and Law et al, 2014).

Other studies suggests, perhaps, that while it may generally be the case that reduced regulation removes barriers to entrepreneurship, this relationship may not be linear (Adomako & Danso, 2014). In fact in some cases regulations can be regarded as positive contributors to firm performance (Chittenden & Ambler, 2015, OECD, 2004 and Kitching et al, 2008).

The apparent contradiction over the effect of regulations on SMEs may not only be due to variations in the type of regulation (OECD, 2004). It may also be because regulations have both direct and indirect impacts on small businesses via their impacts on customers, suppliers, competitors, regulatory authorities and infrastructure providers (Kitching et al, 2008; Gray, 2008 ; Vershina et al, 2014 and Kitching et al ,2015). These varied impacts mean that SMEs can use regulations to their advantage (Douglas et al, 2006). This extends into the realm of ‘self-regulation’ where markets and services can be defined, nurtured and protected through voluntary codes that may even extend beyond legal requirement (McCarty, 2010 and Anderson and Russell, 2011).

3.3 UK National Context

The relationship between the regulatory environment and business performance in the UK has been a significant source of debate both in academia and policy-making since at least the 1980’s. The impact of regulation on businesses continues to be a focus of attention in the findings of recent business surveys. The most recent Business Perception Survey published by the National Audit Office and BIS (NAO/BIS, 2014) indicates that while there has been continuous improvement in perceptions of regulatory burden, just over half of all respondents (51%) still regard regulation as an obstacle to growth and a significant proportion (43%) expect this burden to increase in the next 12 months. This burden is particularly relevant to SMBs as the proportion of businesses that regards regulation as an obstacle to success falls considerably for medium-sized firms (50-249 employees, 40%) and large firms (over 250 workers, 34%).

3.4 Impacts of Regulation on Small and Micro Businesses

Recent surveys also tend to show that regulatory burden is greater for smaller businesses (NAO/BIS, 2014 and BIS, 2015). These survey results tend to confirm previous reviews of the effects of regulation on smaller businesses (Chittenden et al, 2002, Crain and Crain, 2005). These results also resonate with research findings across a range of sectors and aspects of regulation. Small business owners in general have very negative perceptions of regulation (Carter et al, 2004 and BIS 2012). Studies also show that small business owners tend to be reactive rather than proactive in addressing regulation. In the context of health & safety, for instance, Vickers *et al* (2005) report that in a survey conducted in 2001-2 that small firms (under 50 workers) had low awareness of legislation and while

some businesses could be classed as “proactive learners” with regard to regulation, most were described as “minimalists”, “reactors” and a minority of “overt avoiders”.

Regulation is also viewed as a significant cost for small firms across different sectors and across different aspects of regulation (Schmidt et al, 2007 and Wilson et al, 2012). This evidence suggests, at least in terms of perception, that small and micro-businesses are disproportionately affected by regulatory costs and burdens. It is, however, a separate argument to suggest that removal of regulations will stimulate business growth whereas there is some evidence that the removal of support can stimulate business exit (Peck et al , 2014). As argued above, there is no *necessary* relationship between regulation and entrepreneurship either in an international or national context. Indeed, some evidence suggests that rapid changes in regulation induce uncertainty which might, ostensibly, actually act as a disincentive to entrepreneurial activity (BIS, 2012).

3.5 Regulation and Growth-oriented Small Businesses

The focus of this research, however, is on high growth small firms rather than small firms in general and at this point it is worth reflecting on the characteristics of high growth firms and whether their approach to regulation might differ from the generalised picture. A relevant analysis is provided by Kitching et al (2008). Their analysis indicates that owner-managers are much more aware of negative aspects of regulation than regulation as an enabler of change and growth. They argue that regulation does not have a pre-determined impact on performance but much depends on the context and, critically, the approach used by business owners in response to regulation. It is, they suggest, simplistic to argue that regulation either impedes or enables growth. It can do either (or indeed both) depending on certain situations. Regulations can create markets for products and services and also release resources required for growth (capital, land, premises, labour). Other regulations can motivate productive actions (innovation in product development) as well as protect markets from rogue traders. Regulation, it is concluded, generates multiple tendencies simultaneously that can be contradictory.

These ideas can be linked to more recent studies that have attempted to show how regulation might affect high growth or entrepreneurial small firms. In one sense, one might anticipate that high growth firms are more likely to experience difficulties with regulation due to the process of change involving entry into new markets, development of new products, forms of diversification and the need to recruit new staff possibly with new skills. There is limited evidence to support this conclusion but mainly from firms that claimed to have been deterred from specific actions rather than those that had actually adopted growth strategies (Gray, 2008). By comparison, the weight of evidence appears to suggest that growth-oriented small businesses are actually less encumbered by regulation than small firms in general. As Gray (2008, p7) observes, *‘entrepreneurial firms are more forward and outward looking and less likely to be held back by actual or possible problems related to regulation compliance’*. Kitching et al (2008) also argue that high growth firms are more likely to be proactive and seek opportunities associated with knowledge of the regulatory environment. Linking back to the analysis of Vickers (2005), it is plausible to argue that high growth firms tend to be ‘proactive learners’ with regards to regulation.

3.6 Regulation and Competitive Advantage

This use of regulations to gain competitive advantage by some firms may explain why regulation is seen as less of a burden to high growth firms than *‘potentially high growth’* firms (NESTA, 2011). This would then support the argument that the impact of regulation depends on whether the SME CEO is ‘regulation promotion focused’ or ‘regulation prevention focused’ causing the firms to use regulation as an enabler or a disabler (Wallace et al 2010). Similarly, Levie and Autio (2011) argue that regulations at different points of business will have different impacts on two types of entrepreneurs. Their study identifies “strategic entrepreneurs” who not only seek opportunity but also recognise and proactively exploit sources of competitive advantage. These types of entrepreneurs, therefore, are not only likely to incorporate regulatory costs into their business planning but also recognise competitive advantages that can be derived from knowledge of regulation. In contrast, *“non-strategic entrepreneurs”* are less proactive and more likely to view regulation as a burden rather than a potential source of advantage. These authors note that strategic entrepreneurs (as opposed to non-strategic “necessity” or “forced” entrepreneurs) have a disproportionate effect on job growth, but they are also “a small percentage of a nation’s nascent and new entrepreneurs (p. 1411).

The idea that businesses may be able to utilise regulatory knowledge and practices to gain competitive advantage is, of course, not new (Maijor and van Witteloostuijn 1996, Taylor 2000). However, it is, perhaps, an overlooked business strategy in practice particularly when applied to smaller businesses (Rossi, 2010; Anderson and Russell, 2011). Yet recent case studies of growth businesses reported by the Forum for Private Business (FPB 2015) highlight a number of examples of pro-active strategic responses to both the direct and indirect impacts of regulation.

3.7 Summary of literature

A number of key points emerge from this review of literature that relates to the relationship between business growth and regulatory environment. At the international scale, studies have shown that while there appear to be very broad statistical associations between measures of economic growth and regulatory environment, the effects of regulation on entrepreneurial behaviour are far from clear. In particular, entrepreneurs react to *uncertainty created by weak regulatory environments*. Other studies also show that while heavy *administrative* regulations have negative effects on entrepreneurship and can induce expansion of the informal economy, other types of regulation are instrumental in creating and protecting market opportunities that can stimulate entrepreneurship.

At the national scale in the UK, while evidence from business surveys continues to show that a high proportion of small and micro-businesses continue to experience what is regarded as excessive regulatory burden, studies of growth-oriented businesses suggests a much more varied and nuanced situation. While there are undoubtedly costs associated with addressing regulatory requirements, on the positive side, literature suggests that some growth-oriented firms are more likely to benefit from and therefore recognise the value of regulation in defining market opportunities, protecting product-markets and quality brands. Some growth firms are therefore “strategic” in their approach to regulation and may make use of regulation or seek to influence regulation as an enabler to business growth.

So the literature suggests that small growth-oriented firms in particular are likely to display contradictory tendencies in their responses to regulation as suggested by Kitching *et al* (2008). On the one hand, business growth, particularly if it is based on diversification or entry into new markets, will almost certainly lead to additional cost related to the process of learning and subsequent compliance with regulatory requirements that are new to the firm (Kitching, 2006, Doern, 2009 and Kitching, 2015). However, growth firms are also more likely to be “strategic” in their approach to regulation and to recognise the competitive advantages that can be derived from knowledge of regulation. They are therefore more likely to be characterised as “proactive learners” in their approach to regulation.

These issues provide the context for the empirical work reported in this paper. Interest focuses in particular on the way in which these owner-managers view the regulatory environment. Key aspects include the extent to which growth oriented SMBs regard regulation as cost or opportunity and the extent to which knowledge of regulation is seen as a source of competitive advantage. We are interested to illustrate how this awareness impacts upon entrepreneurial behaviour. In this context too, it is anticipated that insights may be drawn from these behaviours regarding the significance of regulatory burden as an inhibitor (or indeed, an enabler) of business growth.

4.0 Approach to study

The approach to the research involved selecting a number of relevant case studies of SMBs who operate in the north-west region of England. The case studies cover a range of sectors and types of products and services. Selection of cases, however, involved identifying firms that shared common characteristics in relation to experience of business growth. They are all *proactive* in seeking new market opportunities and *innovative* in terms of product development and/or business process. As a consequence, it was anticipated that these businesses would have experienced new regulatory challenges inherent in these processes of change. Interest lies in documenting how growth plans were influenced by the regulatory environment.

4.1 Selection of Case Study Firms

To meet the research aims and objectives, the following criteria were applied: Businesses that fall into the SMB category; Evidence of recent attempts to achieve growth through various forms of diversification and innovation in product and process and representing a range of sectors to capture varied experiences.

25 businesses were identified that had been involved in innovative programmes delivered by the University and had experienced growth associated with various forms of innovative behaviour. This long-list was then reduced to 15 on the basis of publicly-available information on patterns of investment and change (web-based information as well as reports in the media).

Approaches were made to interview these 15 companies. Of these, interviews were conducted with nine businesses. Preliminary analysis of these cases, however, led us to eliminate one of these cases on the grounds that the business did not meet our criteria as a growth-oriented business with recent experience of proactively seeking to grow the business through accessing new markets or diversification. The analysis that follows is therefore based on **eight** useable interviews. All of the interviews were conducted at the business premises of the case study firm involving detailed face-to-face discussions with owner-managers. As is typical of such businesses, these individuals possessed knowledge of the history of the firm as well as a good understanding of current strategy and operations. The interview schedule covered six major themes as follows: Background of the interviewee and the current business; recent growth and development; Impact of the regulatory environment; Awareness of regulatory requirements; Effects of regulations on growth plans and General perception of regulatory burden.

Table 1 lists these firms in employment size order. In terms of sectors, the case studies are very varied including food and drink manufacture, wholesale supply of materials and equipment, design and manufacture of specialist equipment as well as providers of business services. The interviews confirm, however, that what they have in common is recent experience of innovation in sustaining and growing their businesses. This includes two firms that have been established in the past five years and two others that were created in the year prior to the financial crisis.

Table 1: Characteristics of Case Study Firms

Firm	Product / Service	Sector	Workers	Start date
Firm A	Machinery suppliers	Wholesale	35	1979
Firm B	Safety engineering	Business Service	25	2011
Firm C	Land surveys	Business Service	22	2002
Firm D	Food preserves	Manufacture and retail	20	1999
Firm E	Leisure equipment	Design and manufacture	20	1993
Firm F	Environmental technology	Design and manufacture	18 (+50)	2009
Firm G	Accommodation	Tourism	6	2007
Firm H	Brewery	Manufacture	2	2007

Source: Authors' survey- interviews conducted February/March 2015

5.0 Results

5.1 Growth and Development in the Case Study Firms

The interviews with owner-managers confirmed our expectation that these entrepreneurs have recently been striving to be innovative in sustaining and growing their businesses. The nature of this innovation was explored in the early part of the interviews (summarised in Table 2).

Table 2: Growth and Development Paths of Case Study Firms

Firm	Product /	Growth and Development Path
A	Machinery	Well-established family business seeking to grow dealership with global
B	Safety	Diversification from safety case management into safety engineering design in

C	Land surveys	Growth based on process innovation -investment in unmanned aerial vehicles
D	Food preserves	Growth based on product and marketing innovation – local foods in export
E	Leisure	Growth based on product innovation – specialist equipment for indoor climbing
F	Environmental	Growth based on product innovation - specialist equipment and skills in data
G	Tourism	Growth based on investment in product improvements - to obtain 5* grading
H	Brewery	Diversification of local traditional pub into beer production – micro-brewery

Source: Authors' survey- interviews conducted February/March 2015

These brief portraits of the case study businesses illustrate significant diversity of growth opportunities for small and micro-businesses. While products, services and circumstances vary, however, there are several shared characteristics that are particularly pertinent to this study. These eight businesses are all **proactive** in seeking new market opportunities and **innovative** in terms of product development and business process. These characteristics have led to crossing boundaries of various kinds (from the familiar to the less familiar), including diversification from one sector to another, expansion into new market areas either nationally or internationally as well as relocation between sites. Interest focuses now on the regulatory challenges inherent in these processes of change.

5.2 Business Growth and the Regulatory Environment

The core of the interview schedule focused on the effects of regulation on the case study businesses and the way in which regulatory issues were addressed as part of their growth plans. The responses indicate that there were some aspects of regulation that impacted **routinely** on these firms and in general these appear to be regarded as necessary and integral to business processes. Some aspects of regulation, however, bore specific relationship to specific business growth strategies and represented **new regulatory challenges** to businesses. The analysis below considers these two aspects of the regulatory challenge separately.

5.2.1 Routine Aspects of Regulation

Interviewees were asked to explain how regulations routinely impact on their businesses. This question was initially unprompted and this invariably provoked a discussion of health & safety. This is not surprising given recent data from the business perception survey which suggests that this particular aspect of regulation demands above average numbers of days in compliance activity and is also perceived as a higher burden on businesses (NAO/BIS 2014, p.28; 33). On health & safety, there was a general acceptance of the need for regulation and, indeed, the benefits that businesses derive from this, including the protection of markets against rogue traders. So while burdens are recognised, these are balanced by significant benefits. Several interviewees (again unprompted) made the point that their customers, clients and supply chains in many instances demand even higher standards of care than required by law.

“Health and safety?... a lot of it is common sense... How to make people safe in lodges. We have no problem with this. Regard it as a basic duty of care”. (Tourism accommodation)

Similar points are made about trading standards where customers and clients were viewed as a more powerful and severe critic of the business than the regulators.

Several interviewees raised issues related to the burden of compliance with employment law. HR issues were particularly relevant to those small businesses employing more than 20 workers. This generated workload in some cases and the costs of seeking external advice in two cases.

Even so, interviewees in general regarded employment law as a basic requirement in running a business and saw no conflict between business objectives and compliance with regulation: *“We recognise the need for them, but would like them to be less cumbersome” (Land surveys)*

These initial discussions about regulatory impacts also raised issues that were sector-specific. Under environmental law, safe control of weeds in a water environment had been an issue for one business

(tourism accommodation) while in another case, recycling of waste materials was addressed through outsourcing. The microbrewery had needed to address issues connected with licensing laws and responsible drinking (underage drinking, drink-driving, vulnerable groups). In many such cases, the potential harm to the business created by loss of reputation that might be consequent upon failing to comply with industry-specific rules appeared to be a much stronger influence on behaviour than the regulatory system itself and so the outcome was to raise standards well above statutory minimum levels.

The preliminary conclusion from these discussions seems to support the view that while businesses may make demands for simpler procedures, regulations are necessary and mostly consistent with the objectives of business in that they are “important for fairness” and create “a level playing field”. They also “protect customers”.

5.2.2 Regulation and Business Growth Plans

The discussion surrounding the impact of regulation on the business in general was followed by a more detailed investigation of the regulatory challenges that were confronted arising from recent growth experiences (see Table 3). As noted in the previous section, growth in employment placed additional burdens on businesses in terms of HR practices (such as monitoring sickness, dealing with maternity entitlements, health & safety at work, compliance with equalities and discrimination law) as well as health & safety (staff induction, training, safety awareness). One consequence of this is that informal or reactive approaches to regulation that might be effective (and even appropriate) with a small number of employees quickly becomes a source of inefficiency. This suggests that the relationship between growth and regulatory burden is not necessarily linear or pre-determined but may vary and be dependent upon the business response.

Table 3: Impacts of Regulation on Growth and Development

FirmProduct Service		/Impacts of Regulation
A	Machinery suppliers	Regulations share the responsibility of safety for clients and staff with the supply chain. Approach to regulations until now has been reactive , recent growth means need to be more systematic
B	Safety engineering	Issues occur when regulations affect business practice or costs . Perceived over-regulation on certain parts of the market is limiting the opportunity for new entrants
C	Land surveys	Customer’s interpretation of regulations has biggest impact. Lack of regulations over sector is allowing less qualified new entrants into the market .
D	Food preserves	Always found ways to work regulations in or work round them. Biggest regulatory impact on growth is additional burden of business practices and costs
E	Leisure equipment	Accreditation with government regulations and trade body standards is fundamental for the business. Systematic approach to regulations when diversifying. Issues occurred when regulators’ interpretation was different to what was expected.
F	Environmental Technology	Market is highly driven by regulation. Issues could occur if regulatory changes affect business practice or costs
G	Tourism accommodation	For a service industry , dealing with regulation is much the same as meeting needs of customers . Unlikely to find a successful business failing on trading standards. Issues occur when regulatory changes affect business practice or costs

FirmProduct / Service		/Impacts of Regulation
H	Brewery	A community focused business -probably over self-regulate, reputation is probably more important than maximising the profit. Systematic approach to regulations when diversifying.

Source: Authors' survey- interviews conducted February/March 2015

5.3 Adjusting Business Growth Plans due to Regulation

Interviewees were asked whether their investigation of relevant aspects of regulation had caused them to adjust or even scale back their plans for growth (Table 4). It is significant to note that in four of the eight cases, regulations had never been a barrier to growth nor a reason to adjust plans. Indeed, for several firms, it can be said that business expansion plans exist because of regulation, not in spite of them. As one company observed:

"We have never changed a plan due to regulation..... tend to develop business out of regulation.... It's beneficial for the market" (Environmental technology)

Table 4: Effects of regulations on growth plans

FirmProduct / Service		Effects of regulations on growth plans
A	Machinery suppliers	Business now needs to invest time to create a structured approach to regulation that could make the business more efficient . Interpretation of some regulations is negotiated with regulators.
B	Safety engineering	Regulations affecting staff costs have to be considered as part of the business strategy. Would like to negotiate interpretation of regulations with regulators.
C	Land surveys	Regulations that restrict less scrupulous traders would allow the business to grow.
D	Food preserves	Dropped products where regulations (because of consumer risk) are too complicated . Regulations affecting staff are taken to be part of the business' responsibilities (CSR).
E	Leisure equipment	Time has to be invested researching the potential regulatory impact on new ventures. Interpretation of regulations is negotiated with regulators.
F	Environmental technology	Develop business out of regulations . Dropped assets where regulations (because of assets risk) are too complicated .
G	Tourism accommodation	Dropped products where regulations (because of consumer risk) are too complicated . Regulations restrict less scrupulous traders which allow the business to grow.
H	Brewery	Time has to be invested researching potential regulatory impact on new ventures.

Source: Authors' survey- interviews conducted February/March 2015

This implies that in some growth markets, the impacts of regulations on client groups represents or creates business opportunities for specialist suppliers of goods and services. The regulatory landscape is therefore a market environment to which business plans are constantly being adjusted.

In some of our case studies, regulation has created a market niche where knowledge of regulation and compliance is as key business asset.

The entrepreneurs in these markets were highly conscious of the significance of regulatory knowledge for their entire business and the competitive advantage that can be accrued from acquiring such knowledge in a timely fashion. Understanding of regulation extends well beyond the “letter of the law” and includes knowledge of the regulatory environment, how rules are likely to be interpreted and the processes of decision-making involved in implementing regulation.

In other cases, however, businesses have altered details of their growth plans in response to their evolving knowledge of regulatory requirements surrounding their new venture. Two such examples relate to product mix and food safety standards. Our case study of a food producer altered recipes and product range in response to compliance costs associated with nut allergies.

Adjusting plans? No- we’ve always found ways to work it in or work around it..... We’ve dropped products that may be too complicated to continue with..... nuts. So we don’t use them now. Pine kernels are the only ones they go with.... Only a small batch with nuts is made in the warehouse or at home ... not in the kitchens here” (Food preserves manufacturer)

The business withdrew some product to avoid the cost and complication associated with use of nut ingredients (food labelling, packaging, food allergy training, cross-contamination).

A second example illustrates how regulatory issues can affect decisions on internalisation and externalisation in the supply chain. A tourist accommodation provider initially supplied a free welcome pack for visitors containing various foods including home-made cakes. However, this product enhancement raised concerns about food safety liabilities even though the product was supplied “free of charge”. The tasks involved were also more time consuming than anticipated. A decision was therefore made to substitute local food and drink producers (butchers, bakery, wine merchant) to provide welcome goods as well as an order form. The business does not generate revenue from this but considers that it adds value to the 5* experience.

In another case, regulation appears to have had the effect of demarcation between different product-markets and different producers or service providers. Business plans had been adjusted to account for differing risks and regulatory challenges associated with related activities. In this particular instance, a business involved in developing aerial surveying technologies faced decisions on how the business might grow that included options to operate aircraft and use the technology to collect and analyse data on behalf of clients. It is clear that regulatory considerations played an important part in determining the outcome. As regards expansion into aircraft operations:

“The company does not now operate aircraft – this is contracted out for efficiency reasons – too much to take on regarding maintenance and safety regulation.”

This business has, however, developed in-house capacity and capability to collect and analyse data which includes relatively sophisticated software development alongside checking observations on screen that is highly labour intensive and difficult to manage due to intermittent demand. The business manages this demand using flexible terms of employment:

We currently employ over 60 people, but a lot are part time / zero hours contracts. Breaks down as 18 full time, 50 others – reviewers of data and interpretation.

The experience of managing the process of service delivery has, however, led to changes in the strategic direction of this business. The high value-added part of the business lies in developing the technology rather than service delivery which is more labour-intensive. Added to this, there are currently political uncertainties surrounding the use of zero-hours contracts which increases risk of regulatory changes. The nature of the market is also subject to political changes induced by shifts in government energy priorities. The company is therefore exposed to the *indirect* effects of regulatory changes (i.e. regulation affecting their clients and customers). Partly influenced by regulatory issues, therefore, the business owner is moving away from being a UK service provider to specialise in development of technology for an international market

The above cases illustrate situations where shifts in growth plans led to higher levels of externalisation than first anticipated. We also have examples where the reverse proved true. For example, it was concern for regulatory compliance that reversed another businesses decision initially to outsource work to a third party. Over time, the owner recognised risks involved in not having direct control over aspects of the business that directly affected safe use of equipment in the leisure industry.

5.4 Regulation and tipping points in the growth process

The interviews provided an opportunity to question owner managers about key points in the growth process where regulation challenges were particularly intense. These are referred to as “tipping points” that, in theory at least, could create barriers to growth. The question for our interviewees concentrated on identifying the particular moments or circumstances in which regulatory challenges seemed to peak and how they dealt with these particular moments.

Our case studies overall display very varied experiences of this kind and it is difficult to make generalisations from these cases about precisely when these occur. However, it is interesting and useful to document these experiences to show how they are affected by very specific circumstances both within the business and in the external environment.

One case for instance had grown in the space of three years from a single person consultancy to a business employing 25 highly qualified professionals. This has evidently exposed this business to increasing levels of regulatory burden associated with HR issues. One example relates to sick pay:

“[Employment] regulations are very much weighted towards the employee and not enough on how to mitigate cash flow issues with sickness..... workers get one week’s sick pay but then must go onto statutory sick pay. It complicates payroll when you have to keep track of which days they were sick as wages are paid monthly. Also, if they go off on stress, there could be abuse and this can wipe out the cash-flow of a business.”

At some point in this process of growth, therefore, the regulatory burdens on the owner-manager became sufficiently intense to prompt a change in the way HR issues are addressed in general including out-sourcing.

“We have faced growing pains and HR issues. So we have contracted out our legal arm to a local solicitor which has come at a cost – hard for a small business.

This owner-manager has also dealt with the increased demands on his own time associated with regulation by distributing responsibilities across his professional team of employees. Hence, responding to regulation becomes a function of the whole business. This has consequences for levels of investment in professional development and training which have increased considerably and also developing effective systems for sharing information and communication between staff.

This case reflects the issues raised in a recent report (BIS 2013) that investigated the effects of employment regulation on businesses. This study suggests that at some point in growth between “micro” (under 10 workers) and “small” (10-50 workers) professional business of this type come under increasing pressure to appoint dedicated HR staff, access external legal services, redistribute management responsibilities, develop ad hoc policies and invest in training and systems for monitoring and review.

A second example of this same “tipping point” between “micro” and “small” is provided by the case of food preserves (Firm D). This example matches some of the characteristics on the “non-professional” business discussed in BIS (2014). This model suggests that growth in these types of SMBs leads at some point to the need to recruit office managers and HR specialists to develop regulatory policies and implement systems for monitoring and review. This case however, illustrates how local nuances can affect these decisions. This business grew from just two people in 2005 but now employs 25 full time staff working in a shop, warehouse and production unit. Around 2008, various pressures on management time including regulatory issues led to a reassessment of management structure. It is interesting to note that this decision coincided with a relocation. In this case, the decision to address regulatory demands (tipping point) was triggered, in part, by another external factor (a relocation

decision). This could explain why such tipping points cannot be defined at a precise number of workers.

The nature of regulatory burden in relation to growth was described in the following way:

“The biggest change with growth has been the form filling and payroll. The amount of time spent finding the right forms and completing them on time”

It was relocation that triggered a response to the build-up of this regulatory burden.

“When we moved here it was a tipping point.... We needed more people to make it work but we couldn’t afford more as also the recession had started so we employed [Sally]”.

“We employ a sales and marketing manager, [Sally] 6-7 years ago. I look after finance accounts and marketing, [Pete] looks after production logistics and new product development so business is covered in every respect”

What is interesting in this instance is that the new appointment was not an HR specialist as suggested by the model but sales and marketing. This appointment, however, meant that the owner-manager could spend less time dealing with sales and marketing and give more attention to employee issues and engagement with national regulatory bodies that were considered equally critical for business success. The owner-manager is now able to spend more time with employees, dealing with HR issues and also engaging with regulatory bodies at local and national levels.

This case also illustrated how such “tipping points” can lead to more systematic investment in training related to regulatory requirements.

We take people who have the ability and we do in-house training or send them to a local college to do an NVQ to bring them up to what they need. For example, the nutritional analysis and allergen information that is needed on the labels – the rules for which have changed in the last year. We sent him (the person who prints labels) on an appropriate course and I went too just in case he left the firm so that we wouldn’t be stranded.

This is also an example of growth leading to consideration of outsourcing to meet major new regulatory demands placed upon small businesses, in this case relating to pensions:

The biggest issue is pensions enrolment but it is difficult for the individual to opt out. So we might outsource it and that will cost us money”

5.5 Businesses’ Awareness of Regulations

The interviews provided an opportunity to make observations about the apparent awareness of regulation displayed by owner-managers and to document their main sources of information. Interviews suggest that firms are well aware of sources of information on regulation specific to their sector through involvement with relevant trade organisations. Reference to these formal channels of communication of regulation was found throughout the case studies. This was frequently linked to industry standards in general. Firms in more well-established product-markets in particular tended to rely on industry standards recommended by relevant sector bodies (e.g. Firm A machinery suppliers, Firm D food preserves, Firm H brewing). This implies that many small firms do not necessarily distinguish between industry standards and government regulation. They appear to make the assumption (not unreasonably) that those that define industry standards in mature markets will ensure compliance with formal regulatory requirements.

Our case studies, however, reveal a more nuanced approach to regulatory learning and awareness of compliance issues which suggests that business managers find ways to navigate the complexities of regulation and to deal with the sheer volume of information by combining formal sources with various “proxies” that indicate likelihood of compliance. What this appears to illustrate is the fact that our interviewees rarely rely solely on formal channels of communication but also make use of tacit forms of knowledge concerning regulation – i.e. knowledge acquired by interacting with clients, suppliers, customers and other businesses.

To illustrate this further, some interviewees suggested that if customer expectations are fully met, then the practices of the business are likely to be compliant, or possibly even exceed, regulatory requirements. Another example suggests that other small firms rely on supply chains to alert them to regulatory change. Again, it appears that an assumption is made that compliance with these instructions is likely to be well within the bounds of regulatory requirement. Indeed, the business arguably has no need to (nor interest in) distinguishing between statutory and non-statutory requirements as long as both are met. This applies in particular to trading standards.

Of course, these approaches to compliance do not necessarily impinge on all aspects of the internal operations of businesses and in some cases, recommended industry practices may be overlooked or even ignored. In particular, expanding small businesses may encounter new issues related to employment and the need for more systematic and formal approaches to recruitment, selection, training and HR practices. Owner-managers, however, tend to rely on general awareness via the media and through networking with other businesses to alert them to changes in employment regulation.

There was a perception that public sector bodies (local authorities, health sector and education) create unnecessary burden in recording information that appears unrelated to the ability of firms to deliver contracts. While some of these requirements may be statutory, there is an impression that many reflect non-regulatory practice that create regulatory burden ('tick box'). Business owners argued that this generates internal administration costs and can lead to external costs - *"They push responsibilities onto us...so... we have to pay an external consultant to say that we do what the council wants"* (Machinery supplier)

To varying degrees, firms maintained conversations across their networks on regulatory practice with all of their stakeholders. This ranged from simple knowledge acquisition through trade bodies to developing tacit regulatory knowledge through the supply chain *"general awareness"* to actually influencing regulatory practice at sector at a variety of scales or local or national government level *"sits on the... board...creating the...plan for the UK."* (Firm D). Indeed, if there were an unforeseen regulatory impact, firms tend to use their networks to test their understanding of the regulatory implications to ensure the best outcome for their firm.

It is evident that business owners need not only to be aware of regulation but also have to understand how these regulations are interpreted and applied in specific circumstances. This was often the case around planning regulations where the firms would negotiate the interpretation of the regulations with various stakeholders in an attempt to gain a successful outcome for the firm.

While many regulations are, to some extent, built into the routine processes of any business, the case studies also demonstrate that growth sometimes presents challenges to these accepted routines due to the need to accommodate changes in the business. Growth exposes owner-managers to new regulatory issues but also has an impact on existing practice across the whole business. The interviews provided an opportunity to discuss with owner managers how they were made aware of the regulatory implications of their growth projects and how they made use of the different sources of knowledge of regulation.

Growth plans sometimes lead entrepreneurs to adopt quite pro-active approaches to regulatory learning. In two particular cases, interviewees consulted public or private agencies that they considered would be able to guide them with the regulatory implications around the new project. This pro-active approach, however, was not apparent in all cases, in another case the experience of growth had taught a lesson that a more proactive stance on regulation (systematic gathering of regulatory information) could improve business efficiency and steps were being taken to move in this direction. Other cases suggest that owner-managers can be caught out by unexpected regulatory demands that have not emerged from networking or trade body advice. This approach is particularly likely in cases where new product markets are emerging and new standards are being set. As one interviewee observed, we become aware of new regulations sometimes only when they *"slap us in the face"* (Firm F Environmental technology).

The need for owner managers to engage with stakeholders over regulatory requirements appeared to vary between cases depending on the maturity of the product. In some cases (for instance, tourism accommodation and machinery supply) industry standards are quite well-developed and

communicated through well-established trade associations and business networks. There are many channels through which business owners can learn not only about regulation but also how it applies to their business. In other instances, however, particularly where growth is associated with product innovation and the emergence of relatively new markets, several interviewees faced challenges associated with under-regulation or perhaps an absence of clear interpretation of regulatory requirements due to the newness of the product. Interviewees recognised both advantages and disadvantages in this situation. On the one hand, lack of clarity might hinder growth, but on the other, there are opportunities to influence regulatory developments which might, in time, reap competitive advantage.

Table 5: Awareness of regulatory requirements

FirmProduct Service		/Awareness of regulatory requirements
A	Machinery suppliers	Tend to rely on signals in the supply chain to raise awareness of regulations. Perception that public sector over-regulates in contracting while private sector uses industry standards. Makes use of external consultants to address issues.
B	Safety engineering	Compliance is customer led and their interpretation of regulations (tick box) . Seek regulatory advice when necessary from other sources such as HR advice from local solicitors . Other regulatory updates from news feeds.
C	Land surveys	Compliance is sector led via sector bodies . Regulatory compliance guaranteed by maintaining industry standards . Seek regulatory advice when necessary from other sources such as Chambers .
D	Food preserves	Compliance ensured by industry standards . Regulatory compliance is also sector led via accreditation from sector bodies . Owner is proactive in debates on regulation and public policy regionally and nationally.
E	Leisure equipment	Compliance ensured by industry standards and accreditation from the sector body . Gets irritated with ‘tick box’ regulatory enforcement . Owner networks across various trade and regulatory bodies to try to influence interpretations.
F	Environmental technology	Reacts when necessary to new regulatory impacts. Wants to distinguish between regulation and simply ‘best practice’ in industry.
G	Tourism accommodation	Compliance is led by suppliers of services/equipment. Updates on new regulations from trade body .
H	Brewery	Regulatory compliance is sector led via sector bodies’ newsletters and training courses. Owner networks across various trade and regulatory bodies to ensure clear interpretation of applicable regulations. Seek regulatory advice when necessary from other sources such as EHO .

Source: Authors’ survey- interviews conducted February/March 2015

5.6 Business Perceptions of Regulation

The final section of the interview gave an opportunity to explore the general perceptions of owner-managers concerning regulatory burdens on businesses, particularly those that are experiencing, or planning, growth. As noted earlier, the NAO surveys show that small businesses generally regarded regulations as a burden and the NAO/BIS 2014 study and BIS (2015) studies specifically show that SMEs regard regulation as an obstacle to growth. To a degree, this has also been borne out in our case studies (see Table 6) with most stressing the time required to keep informed about new regulation and then implementing changes to processes or products made.

Table 6: General perception of regulatory burden

Firm	Product Service	/General perception of regulatory burden
A	Machinery suppliers	Burden is from the interpretation of the regulations by local government customers . Part of the burden is the lack of a central point where all regulatory information for the business can be accessed .
B	Safety engineering	The burden is from the interpretation of regulations by the governing national and international bodies of the sector . The burden is the regulatory impact on employment costs . The burden is not equally distributed between large and small firms .
C	Land surveys	Lack of specific regulatory control over the sector means that the burden is not equally distributed between all firms . Different interpretations of local regulatory bodies within the UK add to the burden. The burden is the lack of a central point where all regulatory information for the business can be accessed .
D	Food preserves	Lack of regulatory implementation over the sector means that the burden is not equally distributed between all firms working in this sector . Different national and local regulatory bodies within the UK add to the burden.
E	Leisure equipment	The business is cooperating with the sector bodies to create ‘regulations’ that will be equally distributed between all firms working in this sector . Over regulation tends to reduce self-responsibility . Regulations in danger of been transferred into tick boxes.
F	Environmental technology	The burden is from the various interpretations of the regulations by the sector’s industry standards and by the customers .
G	Tourism accommodation	Lack of regulatory implementation over the sector means that the burden is not equally distributed between all firms working in this sector . Burden is not equally distributed between LEs and SMEs .
H	Brewery	A divergence of subsectors within the sector means that the burden is not equitably distributed between all firms working in this sector .

Source: Authors’ survey- interviews conducted February/March 2015

It is the time burden that contributes the most to their perception that regulatory burden falls disproportionately onto small firms. Interviewees perceived that small businesses tend not to have staff specifically dedicated to managing the impact of regulation. This task is therefore usually undertaken by the owner/manager. Of course, some find that in specific areas like HR/employment issues, they have the option to contract out this aspect to an outside firm such as a regulatory services firm or solicitor to ensure their compliance with regulations but this generates significant costs in subcontracting.

Large firms on the other hand, it is felt would more likely have their own legal team, HR team, Health and Safety knowledgeable staff, procurement department to deal specifically with regulation updates as well as procurement and tendering.

While some comments indicate that owner-managers believe that small businesses experience a greater burden from regulation in terms of their use of available time and resources, there were as many comments related to feelings associated with fairness. This was expressed in terms of the frustration and annoyance that arises from the lack of a “level playing field”, weak enforcement of regulation on sub-standard traders and inconsistent enforcement between small and large firms. It would appear that regulatory burden is not just related to measurable costs but encompasses wider aspects associated with anxieties and frustrations linked to equity.

“UK’s failure to regulate the sector to the level found in other developed countries, will lead to a further de-professionalization of our sector” (Land surveys)

For one of our businesses, the very existence of and compliance with regulations created their market “and so they weren’t complaining about the level.” More equal enforcement of existing regulations and similar interpretation of regulation by local regulatory bodies/inspectors was called for as firms could see others “getting away with” lower standards which was both annoying to them and posing them at a cost disadvantage.

Two firms, however, felt that small firms needed to be given some exemption, dispensation or subsidy in their compliance with regulations because of the “unnecessary” burden that they caused eg. procurement rules and employment legislation. One firm in applying for Regional Growth Fund grants and the like said:

One half of our businesses indicated that regulations had in some way adjusted or channelled their growth in different directions either in terms of the products that they manufactured or the markets that they secured.

6.0 Implications

The key implications from the case studies can be stated as follows. These owner-managers are well aware of the costs associated with compliance with regulation in terms of management time and purchasing specialist external advice. Interviewees shared the view that these costs have a more negative impact on smaller businesses compared with medium sized or larger firms.

While these negative perceptions exist, interviewees also recognise significant benefits for their business derived from regulation and knowledge of regulation. These benefits are commonly derived from the indirect effects of regulation on their business (i.e. the impacts of enforcement on competitors, suppliers and customers). Knowledge of the regulatory environment of client groups was particularly significant for competitive advantage for several firms.

While the interview focused on the effects of regulation on growth, it became apparent that growth itself also affects the business approach to regulation. It is clear that in several cases the experience of growth itself has led to a more positive and proactive approach to managing regulation. The case studies show examples of businesses becoming more systematic about compliance, more proactive in their learning about regulation and more strategic in their use of regulatory knowledge.

Some case study businesses clearly adopt a positive view of regulation as a necessary means of defining and protecting markets, ensuring fair competition as well as providing protection to the public and employees. Such business owners see no conflict between business objectives and regulation. However, other case study interviewees appeared more sensitive to what was regarded as over-complex bureaucracy and seemingly irrelevant requests for information. This was most apparent for firms that depended at least in part on public sector clients.

As regards the impacts of regulation on growth plans, these growth firms are essentially quite proactive in pursuing their growth objectives and therefore most tend to approach regulation in much the same way - by being proactive and innovative in the way that they deal with regulatory burdens. In some cases, additional burdens are dealt with temporarily by outsourcing, for instance, until employee numbers are high enough to justify internalisation. Indeed, growth itself can induce a more

systematic and proactive approach to regulation because growth can test the limits of existing business processes. So while the question as to whether regulation inhibits growth assumes one direction of causality (the former inhibits the latter), our cases suggest that the reverse is also possible – that growth can influence business approach to regulation.

The case studies illustrate that growth can create additional regulatory burden though this relationship is not a simple one. We have cases where growth in employment and/or turnover has led to a perceived increase in the time and cost of compliance. However, we also have examples of where growth has raised awareness of the need for a more systematic approach to managing compliance and in such cases any increase in regulatory burden is minimised. Some case study businesses respond to this positively by finding ways to make it work as part of their growth plans. In other instances, the problem is not regulation *per se* but the unintended consequences of regulation, inconsistent enforcement and in some cases even under-regulation. Owner-managers' perceptions and personal feelings about these issues appear to contribute towards regulatory burden in its broadest sense. In some cases, part of this response has involved adopting a more *proactive* approach to regulation. This proactivity can take different forms in different cases. It can involve engagement directly with regulatory bodies, but also greater levels of engagement with industry bodies, supply chains, better use of customer feedback and networking to inform on acceptable practice.

The case studies identify some instances where growth plans are modified as a consequence of regulation. Examples include barriers to entry into aviation, use of certain food ingredients and catering in general. These examples, however, have been peripheral to business growth plans rather than core to the businesses. Arguably, regulation has served its purpose in highlighting risk elements in business growth plans and thereby contributing to their success.

In an attempt to provide a framework for understanding the case studies, Figure 1 looks at the relationship between business attitudes to regulation and the way in which growth-oriented SMBs might respond to the regulatory challenge. In simple terms, this creates four broad categories as follows:

Table 7: Business Categories in Relation to Regulations

Category A: Reactive and negative about regulation	These businesses view regulation largely as a cost to be minimized and where the approach to managing regulation tends to be reactive. In this category, businesses are likely to emphasise conflicts between regulation and growth plans.
Category B: Reactive but positive about the benefits of regulation	In this category, while businesses are mainly reactive to regulatory requirements, they recognise the business benefits that can be derived from good regulatory environments. Businesses in this category, for instance, may highlight the importance of regulation as a means of controlling sub-standard traders and protecting markets.
Category C: Proactive but negative about regulation	These businesses view regulation largely as a cost to be minimized but they recognise the benefits of a proactive response to such costs by finding ways to manage compliance more efficiently and proactively seeking to engage with the regulatory environment.
Category D: Proactive and positive about regulation	These businesses seek to engage with regulation in order to maximise opportunities for the business. This can involve collaboration with trade bodies and regulatory authorities in setting industry standards and defining new markets.

Source: Authors' survey- interviews conducted February/March 2015

This simple framework can be used to locate our case studies (see Figure 2). Two business case studies (Firm A: Machinery supply, Firm H: Brewery) tended to view regulation largely as a business cost. Firm H responded to this proactively in order to minimise this cost and reduce risk while in the light of growth experience, Firm A had recognised that a proactive approach to managing regulation could be beneficial for the efficiency of the business and they were taking steps to address this. Two other cases (Firm C: Land surveys, Firm G: Tourism accommodation), while generally more reactive to regulation, recognised significant benefits in regulation in protecting their market and controlling rogue traders.

The remaining four cases were all characterised by highly proactive stances towards the regulatory environment combined with recognition of the competitive advantages associated with knowledge of regulation. It is significant to note that all of these cases involve product innovators (as opposed to process innovators). In two of these cases, (Firm D Food preserves, Firm E: Leisure equipment), the reason for investing time and resource in regulatory matters concerned the advantages to be gained from being able to influence emerging industry standards and protect markets. The other two cases (Firm B Safety engineering, Firm F: Environmental technology) involved businesses whose markets are fundamentally linked to regulation (design of equipment for use in hazardous environments and innovative technologies applied to environmental impact assessments). These cases, in particular, displayed highly proactive behaviour with regard to the *indirect* impacts of regulation on their businesses through the regulatory requirements imposed on their clients. Knowledge of regulation in these cases is indistinguishable from knowledge of markets.

It is also possible to capture changes in regulatory response induced by the growth process itself. Evidence from Firms C (land surveys) and D (tourism accommodation) suggests that their experience of seeking to grow their business has increased their awareness of the positive aspects of regulation as they seek to grow and protect their product-market. As a consequence of growth, Firm A (machinery supplier) has begun to recognise the need to be more proactive and systematic about regulation in order to increase efficiency. Finally, the four product innovators have all embraced the need for a positive and proactive engagement with the regulatory environment affecting their own business and that of their clients.

Figure 1: SMB Response to Regulation

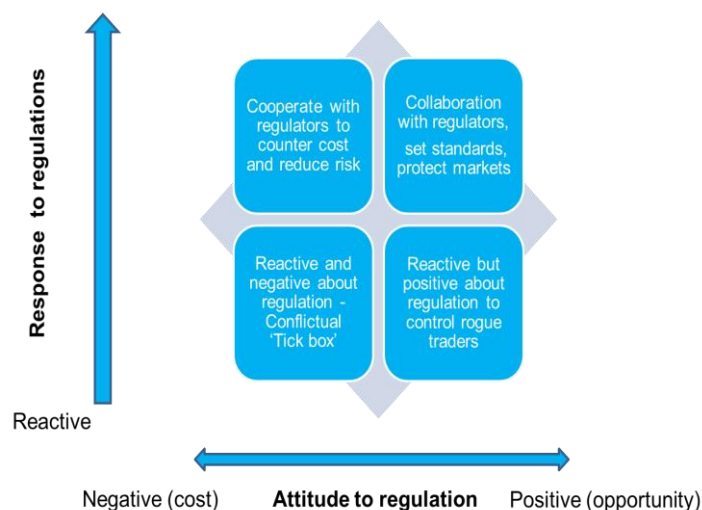
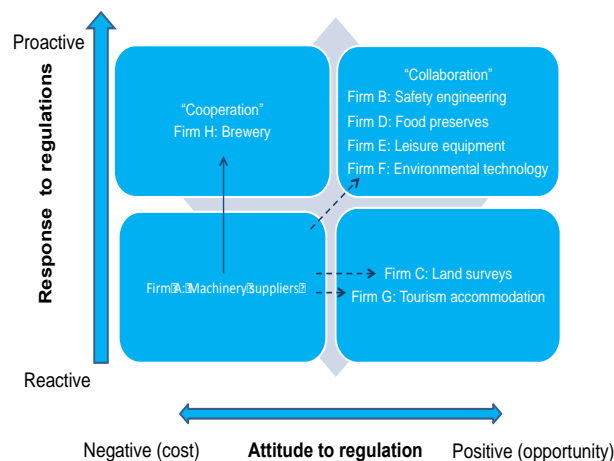


Figure 2: Case Study Responses to Regulation



7.0 Value of this work and implications of findings for future work

This study has shown that owner-managers are aware of the costs associated with compliance with regulation in terms of management time and purchasing specialist external advice. While these negative perceptions exist, interviewees also recognise significant benefits for their business derived from regulation and knowledge of regulation. These benefits are commonly derived from the *indirect effects* of regulation on their business (i.e. the impacts of enforcement on competitors, suppliers and customers).

While the interview focused on the effects of regulation on growth, it became apparent that growth itself also affects the business approach to regulation. It is clear that in several cases the experience of growth itself has led to a more positive and proactive approach to managing regulation. So while the question as to whether regulation inhibits growth assumes one direction of causality (the former inhibits the latter), our cases suggest that the reverse is also possible – that growth can influence the business approach to regulation.

This conclusion – that growth can affect the business approach to regulation – suggests that there is reciprocity between the business environment and regulatory environments. This conclusion certainly seems consistent with recent research reported by Kitching *et al* (2008) that suggests it is too simplistic to argue that regulation either impedes or enables growth. Our cases suggest that regulation can clearly do both (or either) depending on circumstance *and also on the nature of the business response*. It would be useful to test this idea with a larger sample of businesses that not only covers high growth firms, but also firms whose expansion plans faltered and other small businesses that remained small or experienced low growth.

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